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1897

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## CURRENCY ELASTICITY IN HOLLAND.

G. M. BOISSEVAIN.

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### CURRENCY ELASTICITY IN HOLLAND.

Agreeably to the desire of the Sound Currency Committee of the Reform Club and in continuation of its pamphlet of November first, 1896, on "Currency Elasticity,"\* some details concerning the circulation in the Netherlands will be given and explained in this paper.

It is especially the regular movements of the currency which will attract our attention. They show at once the utility of an elastic currency. It would, however be a mistake to look only on these movements if we desire to get acquainted with the working of an elastic currency and of its beneficial results. As will be shown later on the usefulness of such a currency is at least as great, and perhaps even greater, in relation to other occurrences, which may present themselves, and are of vital importance with regard to the circulation.

### VOLUME OF CURRENCY IN THE NETHERLANDS.

Before proceeding to our main subject we have however to call attention to another point, namely to the amount of the circulating medium in the Netherlands—this being taken in general and leaving aside the regular movements which occur in the course of the year, dependent on the seasons or other circumstances.

Here follows a statement giving the figures of the circulation at the end of each year from 1864 to 1896. While the figures have been taken principally from the yearly reports of the Mint and of the Netherlands' Bank and may be taken as sufficiently reliable, there is one item, that of the actual circulation of the government notes, which could not be ascertained with precision. But even if the figures of this item should not be absolutely correct, their circulation cannot greatly affect the general result.

\* SOUND CURRENCY, Vol. III, No. 23—"Currency Elasticity," by L. Carroll Root. 20 pp

The issue of the government notes has been limited until 1884 to a maximum of ten millions of guilders,\* and in 1885 this maximum was raised to fifteen millions.

## ACTIVE CIRCULATION IN THE NETHERLANDS.

On DECEMBER 31.	BANKNOTES.	GOVERNMENT NOTES.	GOLD AND SILVER COIN.	TOTAL.
	Guilders.*	Guilders.*	Guilders.*	Guilders.*
1864.....	97,870,000	7,000,000	92,886,000	197,756,000
1865.....	107,338,000	7,000,000	90,339,000	204,677,000
1866.....	111,258,000	7,000,000	90,339,000	208,611,000
1867.....	122,650,000	7,000,000	87,686,000	217,336,000
1868.....	140,400,000	7,000,000	86,419,000	233,819,000
1869.....	138,361,000	7,000,000	86,518,000	231,879,000
1870.....	147,844,000	8,100,000	98,111,000	253,055,000
1871.....	160,143,000	7,500,000	93,116,000	260,759,000
1872.....	159,830,000	7,000,000	111,642,000	278,472,000
1873.....	170,084,000	6,800,000	101,047,000	277,931,000
1874.....	178,771,000	6,800,000	91,756,000	280,437,000
1875.....	189,228,000	6,980,000	106,347,000	302,555,000
1876.....	192,063,000	6,110,000	111,361,000	309,534,000
1877.....	200,119,000	6,386,000	112,315,000	318,810,000
1878.....	197,962,000	6,340,000	110,702,000	305,004,000
1879.....	190,369,000	6,049,000	105,867,000	301,865,000
1880.....	197,575,000	6,532,000	102,679,000	306,786,000
1881.....	195,545,000	7,927,000	100,313,000	303,785,000
1882.....	189,139,000	9,800,000	99,103,000	298,042,000
1883.....	187,719,000	14,000,000	96,075,000	297,794,000
1884.....	193,508,000	9,800,000	92,584,000	295,892,000
1885.....	192,494,000	14,000,000	87,994,000	294,488,000
1886.....	213,516,000	13,700,000	86,442,000	313,658,000
1887.....	200,069,000	12,600,000	85,813,000	298,482,000
1888.....	205,124,000	11,300,000	81,747,000	297,171,000
1889.....	211,005,000	11,400,000	85,951,000	308,356,000
1890.....	196,161,000	12,000,000	84,809,000	292,970,000
1891.....	195,483,000	12,000,000	81,705,000	289,188,000
1892.....	197,547,000	14,000,000	79,305,000	290,852,000
1893.....	201,569,000	14,000,000	81,747,000	297,316,000
1894.....	202,943,000	14,000,000	82,550,000	299,493,000
1895.....	206,084,000	14,000,000	81,074,000	301,158,000
1896.....	201,037,000	14,000,000	80,123,000	295,160,000

## ELASTICITY.

Passing over what might admit of an interesting discussion as to the significance of the movements of longer duration which have taken place in the volume of circulation in the last thirty-five years, we come to the main subject of our paper.

Here follows again a statement showing what have been in the years 1893, 1894, 1895 and 1896, firstly, the maxima and minima amounts of banknotes in circulation with the amounts of the outstanding bank checks and of the private and government deposits at the bank at the same dates and the total amount of the liabilities of the bank; secondly, the cover, reserve, in gold coin and bullion and in silver coin as also in foreign bills held by the bank against its liabilities; and, thirdly, (a) the net amount of the liabilities of the bank not covered by gold or silver, (b) the same item when considering the foreign bill as equal to a metallic cover (†), (c) the available or surplus metallic cover—the metallic reserve—of the bank, that is the amount whereby this reserve exceeds the legally required reserve.

The coins in active circulation in the country are not dealt with in this statement. It was impossible to do so because the exact figures relating to this item at a special time of the year are not to be ascertained, but the modification is which this part of the circulation undergoes in the course of the year are without importance and need not be taken into account here.

\* The Dutch guilder, or florin, is equivalent to 40.19 cts.

(†) According to the law establishing the rules which are to govern the management of the Netherlands' Bank, the foreign bills are not considered to be part of the legal cover of the liabilities of the bank, but in fact they may be added to the metallic cover, as whenever the foreign exchanges rise above the gold point of exportation a sale of foreign bills will replace and prevent the outflow of gold. It will be remembered that at the Bank of Belgium the foreign bills are officially recognized as equal to the metallic cover of the bank.

STATEMENT OF SOME ITEMS OF THE WEEKLY SITUATIONS OF THE NETHERLANDS' BANK, SHOWING, THE SEVERAL MAXIMA AND MINIMA AMOUNTS FOR EACH YEAR OF THE BANKNOTES IN CIRCULATION.

	Maximum Jan. 14.	Minimum March 25.	Maximum May 6.	Minimum June 24.	Maximum July 15.	Minimum Sept. 23.	Maximum Nov. 1.	Minimum Dec. 3.
Notes in circulation.....	203,465,000	189,087,000	206,450,000	190,024,000	190,360,000	183,086,000	197,768,000	195,905,000
Checks & private deposits.....	4,193,000	6,026,000	2,658,000	4,189,000	5,290,000	2,807,000	5,378,000	3,536,000
Government deposits.....	4,928,000	6,354,000	6,346,000	9,868,000	214,000	5,889,000	6,419,000	11,060,000
Total.....	212,586,000	202,567,000	215,454,000	204,081,000	204,864,000	192,442,000	209,565,000	210,521,000
Gold coin & bullion.....	38,084,000	38,169,000	38,219,000	33,824,000	33,800,000	38,323,000	39,236,000	40,709,000
Silver coin.....	84,518,000	86,375,000	85,827,000	83,608,000	84,390,000	83,351,000	81,850,000	83,094,000
Total of coin & bullion.....	122,602,000	124,544,000	124,046,000	119,432,000	118,190,000	111,674,000	121,106,000	123,803,000
Foreign bills.....	26,378,000	29,390,000	29,390,000	17,476,000	14,808,000	9,111,000	12,115,000	18,734,000
Together.....	148,980,000	153,964,000	153,376,000	136,908,000	133,058,000	120,785,000	133,221,000	142,627,000
LIABILITIES UNCOVERED.								
Foreign bills excl. from cover.....	80,584,000	77,903,000	91,438,000	85,249,000	81,806,000	80,768,000	88,459,000	86,628,000
Foreign bills incl. in ".....	43,606,000	62,108,000	67,775,000	67,775,000	71,676,000	71,657,000	77,894,000	67,894,000
Surplus metallic reserve.....	37,545,000	43,225,000	37,891,000	37,567,000	36,245,000	34,745,000	37,315,000	39,714,000
Notes in circulation.....	210,684,000	197,175,000	213,473,000	200,782,000	203,450,000	196,616,000	208,657,000	199,744,000
Checks & private deposits.....	3,558,000	4,736,000	3,085,000	9,225,000	7,765,000	6,427,000	3,677,000	6,464,000
Government deposits.....	4,416,000	3,350,000	8,820,000	2,636,000	.....	1,114,000	.....	3,064,000
Total.....	218,658,000	205,161,000	217,390,000	212,640,000	217,224,000	204,157,000	211,734,000	209,872,000
Gold coin & bullion.....	48,206,000	51,953,000	53,343,000	54,232,000	54,272,000	53,822,000	48,866,000	49,017,000
Silver coin.....	82,702,000	84,947,000	83,596,000	84,649,000	83,292,000	82,434,000	80,929,000	82,477,000
Total of coin & bullion.....	131,908,000	136,900,000	136,939,000	138,881,000	137,511,000	136,256,000	129,795,000	131,494,000
Foreign bills.....	23,715,000	25,053,000	25,176,000	25,194,000	25,681,000	22,798,000	24,266,000	25,026,000
Together.....	155,623,000	161,953,000	162,115,000	164,075,000	163,142,000	159,054,000	154,061,000	156,830,000
LIABILITIES UNCOVERED.								
Foreign bills excl. from cover.....	86,750,000	68,361,000	80,451,000	73,759,000	79,713,000	67,901,000	81,939,000	78,078,000
Foreign bills incl. in ".....	43,035,000	43,308,000	55,275,000	48,465,000	54,082,000	45,108,000	53,032,000	53,032,000
Surplus metallic reserve.....	44,461,000	54,340,000	49,906,000	53,789,000	50,578,000	54,551,000	45,075,000	47,697,000

	1893.	Jan. 1.	March 30.	May 5.	June 22.	July 29.	Sep. 21.	Nov. 2.	Dec. 7.
Notes in circulation.....	212,038,000	212,038,000	203,683,000	217,341,000	204,284,000	215,330,000	203,474,000	217,390,000	205,423,000
Checks & private deposits.....	5,828,000	5,828,000	8,948,000	6,226,000	8,250,000	7,224,000	4,395,000	3,462,000	4,728,000
Government deposits.....	.....	.....	.....	1,689,000	8,373,000	.....	.....	1,428,000	4,095,000
Total.....	.....	217,866,000	212,631,000	225,256,000	214,523,000	222,554,000	207,469,000	222,186,000	214,386,000
Gold coin & bullion.....	49,194,000	49,194,000	51,376,000	51,432,000	51,538,000	51,397,000	51,260,000	51,390,000	44,530,000
Silver coin.....	82,421,000	82,421,000	84,914,000	84,488,000	85,004,000	85,037,000	82,541,000	81,840,000	81,840,000
Total of coin & bullion.....	131,615,000	131,615,000	136,290,000	135,920,000	136,542,000	135,434,000	133,801,000	133,230,000	126,370,000
Foreign bills.....	24,508,000	24,508,000	22,436,000	25,115,000	24,729,000	24,202,000	20,183,000	19,826,000	19,463,000
Together.....	155,983,000	155,983,000	158,726,000	161,033,000	161,271,000	159,636,000	154,014,000	152,245,000	145,893,000
LIABILITIES UNCOVERED.	.....	.....	.....	.....	.....	.....	.....	.....	.....
Foreign bills excl. from cover.....	86,271,000	86,271,000	76,338,000	89,336,000	77,981,000	87,130,000	73,698,000	89,775,000	87,958,000
“ “ incl. in cover.....	61,903,000	61,903,000	53,892,000	64,223,000	58,282,000	69,515,000	53,455,000	69,041,000	68,493,000
Surplus metallic reserve.....	44,494,000	44,494,000	43,765,000	43,765,000	50,669,000	46,371,000	50,803,000	43,503,000	40,668,000
Total.....	192,668,000	192,668,000	174,995,000	197,324,000	186,932,000	196,616,000	177,956,000	199,319,000	197,119,000
LIABILITIES COVERED.	.....	.....	.....	.....	.....	.....	.....	.....	.....
Foreign bills excl. from cover.....	83,734,000	83,734,000	80,448,000	93,814,000	78,672,000	87,823,000	81,138,000	103,387,000	92,640,000
“ “ incl. in cover.....	30,013,000	30,013,000	34,728,000	28,416,000	35,719,000	31,025,000	33,343,000	25,851,000	31,214,000
Surplus metallic reserve.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

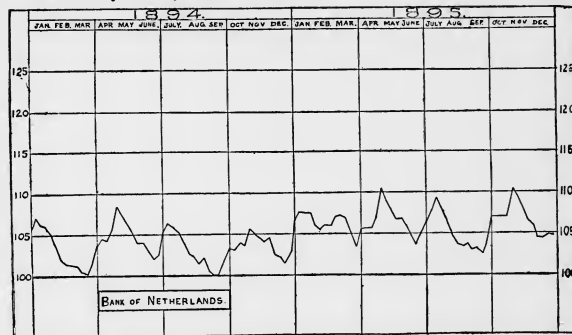
  

	1894.	Jan. 18.	March 28.	May 2.	June 27.	July 4.	Sep. 15.	Nov. 7.	Dec. 19.
Notes in circulation.....	220,856,000	220,856,000	195,471,000	210,203,000	193,318,000	202,350,000	193,300,000	200,887,000	200,148,000
Checks & private deposits.....	5,205,000	5,205,000	4,884,000	4,634,000	3,694,000	4,237,000	3,830,000	3,770,000	5,394,000
Government deposits.....	.....	.....	867,000	1,873,000	1,310,000	1,860,000	2,275,000	1,749,000	.....
Total.....	226,061,000	226,061,000	201,222,000	216,770,000	200,202,000	208,856,000	200,818,000	215,415,000	206,442,000
Gold coin & bullion.....	38,272,000	38,272,000	31,478,000	31,521,000	31,697,000	31,613,000	31,605,000	31,614,000	31,613,000
Silver coin.....	82,130,000	82,130,000	83,651,000	83,514,000	84,207,000	83,564,000	82,077,000	80,414,000	82,189,000
Total of coin & bullion.....	120,402,000	120,402,000	115,139,000	115,035,000	115,904,000	115,177,000	113,682,000	112,028,000	113,802,000
Foreign bills.....	11,955,000	11,955,000	3,645,000	5,821,000	5,756,000	5,858,000	6,008,000	4,990,000	5,517,000
Together.....	132,357,000	132,357,000	130,774,000	126,956,000	121,590,000	121,035,000	119,690,000	117,018,000	119,319,000
LIABILITIES UNCOVERED.	.....	.....	.....	.....	.....	.....	.....	.....	.....
Foreign bills excl. from cover.....	105,659,000	105,659,000	86,068,000	101,735,000	84,438,000	93,679,000	87,138,000	103,387,000	92,640,000
“ “ incl. in cover.....	93,734,000	93,734,000	80,448,000	93,814,000	78,672,000	87,823,000	81,138,000	103,387,000	92,640,000
Surplus metallic reserve.....	30,013,000	30,013,000	34,728,000	28,416,000	35,719,000	31,025,000	33,343,000	25,851,000	31,214,000

## EXPLANATION.

It appears from our statement that the movements in the circulation in the Netherlands, which occur in the course of the year, are very regular, indeed. The item of the Government deposits stands on itself being, partly at least, influenced by circumstances which have nothing to do with the general currency movements; it had to be included, however, in our statement in consequence of its influence on the general situation of the bank. Even the item of the private deposits may be influenced by different circumstances. The main item is, beyond question, that of the banknotes in circulation. It will be noticed that about the middle of January the circulation is quite large; then until the end of March it diminishes, but rises again until, in the early part of May, it arrives at one of the maxima figures of the year. Then again follows a period of decrease until the end of June, followed by another expansion until about the middle of July. From the end of July until the second part of September follows again a period of contraction. In the earlier part of November we find once more maxima figures, and then anew a decrease of the circulation until some time in December, when the ascending movement begins which reaches its climax in January.

The following diagram reprinted from *Sound Currency* of November 1, 1896, shows these facts clearly for the years 1894 and 1895:



The increase in the demand for currency which causes the maxima figures in May and November is mainly attributable to the large payments which at these periods are due for land rents. In January and July the Treasury has large payments to make to the public, partly on account of the interest of the consolidated debt. It may be observed that at these periods there is generally a decrease in the Government deposits against the increase in the circulation of banknotes.

These named data—January, May, July and November—are the four periods of special expansion of the circulation. It reaches then temporarily figures which surpass the amount usually needed to carry on the daily transactions, and, of course, some time will elapse before the exceptionally heavy payments at these periods have found their counterpart in further monetary transactions which cause a return of notes to the bank.

## THE SURPLUS RESERVE.

But how does the bank provide for these enhanced demands for currency? This is seen by comparing the figures of the circulation with those of the uncovered liabilities and of the metallic reserve. Let us take, for instance, the expansion of the circulation of notes from March to May, 1896, which amounted to fifteen millions of guilders,

whilst private deposits remained at about the same height and government deposits increased one million. The metallic cover—gold and silver—was almost absolutely the same at both periods and so was the amount of the foreign bills held by the bank. The result was an increase of between fifteen and sixteen millions in the amount of the uncovered liabilities, and a decrease of somewhat over six millions in the surplus metallic reserve. Six weeks later, at the end of June, the circulation of bank notes had been reduced again to an amount equal to that of March, or even to two millions less. Again deposits as well as the metallic cover and foreign bills had undergone but slight modifications. The amount of the uncovered liabilities had then fallen again to somewhat over one and a half million below that of March, and the surplus metallic reserve was seven millions higher than in May and one million higher than in March.\*

This shows at once the utility of an elastic currency. Let us suppose, for a moment, that the circulation of the Netherlands consisted only of coin. Then a temporary demand for fifteen millions currency would have necessitated an import of gold from abroad to this amount, and the temporary demand having passed away the gold would have had to be returned to some other country. Under conditions such as exist in the Netherlands the temporary expansion of fifteen millions in the currency took place without gold to any amount flowing in, and later again, out of the country. It was the bank which by temporarily increasing its uncovered circulation, rendered this possible. Of course, that such a banking régime shall work well it is generally necessary for the bank keep a much larger metallic reserve than it is legally obliged to do. This only enables it to make an additional issue of notes when it is requisite to satisfy the demand for more currency.

It will be scarcely necessary to add that the conformity between the amount to which the circulation expands and that by which the uncovered liabilities increase need not always be absolute; modifications occurring at the same time either in the deposits or in the metallic assets of the bank exercise also their influence on the proportions between covered and uncovered liabilities.

#### CONTROL OF GOLD MOVEMENTS.

As said before, it is, however, not only with respect to the modifications which the internal circulation of a country will generally undergo with more or less regularity in the course of the year, that an elastic currency is of utility.

The utility of an elastic bank note circulation is two fold. It serves to render possible the temporary expansion of the internal circulation without having recourse to imports of gold from abroad. It serves also to satisfy a foreign demand for gold without any contraction of the internal circulation.

A very striking example of such an occurrence may be given by once more quoting some figures of the weekly statements of the Netherlands' Bank.

In 1896 on the 1st of April, at the opening of the bank's book year, its assets included—

	GUILDER.
Gold coin.....	23,833,000
Gold bullion.....	14,863,000
Foreign bills.....	29,555,000
Making together.....	67,751,000
Silver coin.....	86,164,000
Total.....	153,915,000

\* According to the banking law and the rules which have been established by royal decree, the bank must at all times hold a metallic reserve of at least forty per cent. of its liabilities. Consequently should the circulation increase ten millions and the metallic cover remain stationary, the reserve diminishes by four millions.

On the other hand the bank notes in circulation amounted to	
—again in guilders.....	193,552,000
Outstanding bank checks.....	571,000
Private deposits.....	3,848,000
Together.....	198,371,000

The rate of exchange on London having risen to the gold-exporting point in consequence of the demand for gold abroad, on the 14th October of the same year the said assets and liabilities presented the following figures:

Gold coin.....	23,938,000	Bank notes in circulation....	193,080,000
" bullion.....	5,148,000	Outstanding bank cheques....	752,000
Foreign bills.....	11,328,000	Private deposits.....	2,655,000
Making together.....	40,414,000	Together.....	196,487,000
Silver coin.....	82,318,000		
Total.....	122,732,000		

The bank had thus been obliged to part with gold bullion to the amount

of.....	fl. 9,110,000
And foreign bills.....	" 18,327,000
Whilst at the same time its silver coin had decreased by.....	" 3,846,000

Making together..... fl. 31,133,000

But in the meanwhile the internal circulation (bank checks and private deposits included) had remained almost stationary, having been reduced only to the amount of fl. 1,884,000.

Before the end of the year the foreign changes turned again in the favor of Holland and on the 31st March, we find:

Gold coin.....	23,971,000	Bank notes in circulation....	200,029,000
" bullion.....	28,056,000	Outstanding bank checks....	1,233,000
Foreign bills.....	26,556,000	Private deposits.....	3,585,000
Together.....	77,383,000	Together.....	204,847,000
Silver coin.....	85,191,000		
Total.....	162,574,000		

The internal circulation had increased by fl. 3,360,000, but the increase in the assets of the bank amounted to fl. 39,842,000.

The movement in that year in the gold bullion and foreign bills held by the bank had been most considerable, but it had been without influence on the amount of the internal circulation.

If it had not been that the bank régime in the Netherlands provided the country with an elastic currency, such a course of things would naturally have been quite impossible.

#### CURRENCY REFORM IN THE UNITED STATES.

The question arises whether it would not be possible to reform the banking system of the United States in such a way as to give that country also the benefit of an elastic currency on the modus of the system prevailing in the Netherlands.

If my opinion were asked on this question, I confess that I would hesitate to answer affirmatively.

The strength of a circulation-bank lies in the unquestioned credit which its notes enjoy. It is the fact that the convertibility of its notes is considered as beyond doubt which causes them to be accepted everywhere as readily as coin. Now, as to this point

the system of the national banks in the United States, with their notes issued against government bonds and convertible at the Treasury if not at the banks themselves, has undoubtedly been a great success, having provided the country with a circulation of bank notes which are accepted all over the country as readily as are coins. But it may be asked whether any bank note of which the convertibility were not secured in this way would enjoy the same credit. Besides, the system of one central bank of issues, which as the history of the Netherlands Bank shows has been a perfect success in Holland, would unquestionably meet with great difficulties in a country of such enormous extension and with such different commercial and industrial centres as has the United States. And if there were to be several banks of issue, then other difficulties would arise. The notes of such banks, established in different parts of the country, would most probably not circulate outside their own sphere of action. Besides, it would be difficult to make these several banks act harmoniously so as to regulate the currency as if there existed only one bank. Consequently one would miss a national circulating medium and the elasticity of the currency would not be secured.

Let it be remembered also, that a good bank note circulation is not the only way to get an elastic currency. In England, whatever elasticity of currency exists is certainly not due to the circulation of banknotes. It is well known that their role as a medium of exchanges is rather insignificant. What the bank note is for the circulation in the Netherlands, are the book credits, the deposits of the banks, in England. And by means of such deposits elasticity of circulation can be obtained as well as by banknotes. Provided only that the banks keep, as a rule, a gold-reserve sufficiently large to be drawn upon temporarily if required.

In fact herein, in the reserve, lies the root of the question. Undoubtedly a bank, such as the Netherlands' bank, may be an admirable instrument to provide the country with an elastic currency, but in practice all depends on the reserve which the bank as a rule keeps. If the bank does not usually keep a surplus reserve of some magnitude, it is impossible to have elasticity of the currency.

Besides, as regards the United States, let it be kept in view that its currency difficulties do not find their origin in the banking system. They are caused by the different treasury-notes which occupy much too great a place in the circulation and which it were best to redeem altogether. But, in any case, let the old greenbacks be paid off. Of course this need not be done at once, nor would this be desirable. But let it be done to an amount of ten or twenty millions of dollars monthly. And let no fear of contracting the currency prevent a bold decision to reform the currency by such a deed. Certainly, if the currency is not redundant, the void created by the repayment of the greenbacks will be felt. But so much more gold will be imported in the United States, or so much less gold exported from there. And then let the banks be careful to keep a strong gold-reserve in addition to the reserve legally prescribed. This will enable them to be liberal with their book-credits, when it is required temporarily in view of the internal circulation, and also to part temporarily with part of it, if the exchanges rise to gold-point.

I cannot help thinking that by such means relatively great results would be obtained, without interfering more than absolutely necessary with the existing state of things.

**END OF  
TITLE**